IMPLEMENTATION OF BALANCED SCORECARD AND THE SUCCESSFUL OF IMPLEMETATION STRATEGY: A REVIEW

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ABSTRACT

The balanced scorecard is a formal management technique for development, implementation and management of business strategy. It is difficult to ascertain the success of the technique as most of the literature on its implementation is put out by those with a vested interest in its success as a commercial product. Much has been written about barriers to strategy implementation but not specifically to the implementation of balanced scorecard. This paper presents a review of the factors that contributed to the successful implementation of strategy through implementation of balanced scorecard. While balanced scorecard methodology attempts to overcome some of the barriers to implementation of strategy, factors such as leadership, cultural readiness and organizational learning need to be addressed before any implementation of strategy.

Keywords: balanced scorecard, strategy implementation, leadership, cultural readiness, organizational learning

INTRODUCTION

Companies have long known that to be competitive, they must develop a good strategy, implement appropriate tactics to support that strategy and measure the outcome of their initiatives against strategic goals. There are several factors that need consideration for the effective and efficient of the implementation and management of the strategy. Organization needs to appropriately realign structure, systems, leadership behavior, human resources policies, culture, value and management processes for successful strategy implementation (Beer, 2000). Consideration also needs to be given to the environmental conditions for change and the ability of the organizations to manage change in those conditions (Suboguha, et al. 1997; Beer, 2000). Suboguha et al. (1997) espouses that any significant business process change requires a strategic initiative where top manager act as leaders in defining an communicating a vision for change. Other factors are cultural readiness, learning capacity and IT leveragability. It is easier to be said than many difficulties lies between ideal strategic alignment and reality of implementation.

The Balanced-Scorecard (Norton, 1992) has recently been widely accepted as a framework for strategy implementation and management because financial measures are considered with others related to performance from the point of view of the customers, business processes and learning and growth. The emphasis is on looking on all aspects of business success, not only the financial ones, to understand and control their relationship and dependencies. This way it is possible to have a wider view of strengths and weaknesses of the business. While the Balanced Scorecard appears to address strategic alignment, successful strategy implementation is faced by barriers not dissimilar to those mentioned above despite the perceived involvement of all aspects within the organization is the strategy. This paper focuses on three factors that need to be recognized and addressed before any balanced-scorecard implementation can proceed. The issues relating to leadership, culture, and learning capacity are described. An outline of balanced scorecard is first described so as to understand the significance of these factors.

BALANCED SCORECARD

Balanced scorecard is a recently adopted system that many companies use to overcome the limitations of traditional performance systems. The system is so named in recognition of the balancing of the objectives of performance measurement being that of creating shareholder value and the promotion of strategic objectives. It does this through the use of financial and non financial indicators which are capable of addressing both short and long term strategic objectives. This is in contrast to traditional systems which consisted of measures that had no clear link to the promotion of strategic objectives.

The balanced scorecard is unique in that it is tailored to the organization's needs, operating environment and strategy, using measures that are critical to the organization's success. These measures comprise of four perspectives: customer perspective, internal business perspective, innovation and learning perspective; and financial perspective.

Customer perspective

The customer perspective measures address the question of "how do customers see us?" Consequently, performing well in the eyes of customers is a priority for management and integral component of strategy. By addressing customers' need , the balanced scorecard is means by which management can measure the company's performance in this area and become "customer driven" This therefore requires that the measures adopted reflect customers' expectations and what managers perceive those expectations to be.

Internal Business Perspective

Customers' needs and perceptions are not always directly under the business' control. Customer oriented measures therefore need to be translated into indicators of what the business must do to meet customers' needs. This business' processes are under the organization's direct control and provide means by which its strategic objective can be achieved. Examples include aspects of productivity, quality, and time taken from production to marketing. Cost reduction represents an important component of business operations and may not be seen just as a means to an end to customer satisfaction but as a distinct strategic advantage. If customers perceive the business to be efficient and reliable, then they are more likely to maintain a relationship with it, which is necessary for the achievement of the organization's strategic objectives and maximizing shareholder value. It is important that employees are aligned with the corporate strategic objectives, as it is their actions at an operation level which affect the business processes.

Innovation and learning

Organization must strive to improve its performance and promote continuous improvement. Failure to do so may lead to a loss of competitive advantage (Porter, 1996). Overall target need to be constantly assessed and improvements made. To remain ahead, the organization must improve quality, reduce costs and increase efficiency at a rate that its superior to its competitors. This means continuously improving its processes, eliminating non-value-added activities, refining existing products and identifying new opportunities. This is the essence of creating shareholder value which can be achieved by penetrating new markets and increasing margins by increasing revenue and/or reducing costs.

Appropriate measures are determined by the purpose for which they are required. For example, if the focus were on improving existing technologies, appropriate measures would include the percentage reduction in scrap and cycle time. Lead time for new products compared to that of competitors' products would be an apt measure if the strategy were penetration of new markets. Underlying these measures is an emphasis of continuous improvement in business processes, particularly with regard to factors such as research and development and training.

Financial perspective

Shareholder value is only maximized if profitability is consistently improved. Qualitative achievement such as maximizing customer satisfaction or improved process efficiencies are desirable if they contribute to the organization's strategic goals. Experience has shown that good performance in the qualitative areas does not necessarily translate into financial success (Vitale, 1995). One example would be where a business may have made significant improvements in its operations, yet not have been able to capitalize on those successes by increasing profitability. This may due to the hidden costs associated with excess capacity. Improvements in productivity if not accompanied by an increase in the level of production and sales (thereby increasing revenue), creates excess capacity. Appropriate financial measures are therefore important within the balanced scorecard framework as they indicate whether the company's strategy, implementation, and execution are contributing to bottom line improvement.

IMPLEMETATION OF BALANCED SCORECARD

According to its creator, the balanced-scorecard is established by a process that builds consensus and clarity about how to translate strategy into operational objectives and measures. This means that the scorecard represents the collective knowledge of the managers of the organizations. The scorecard projects is not an initiative to improve a measurement system but rather to make changes in the way the organization views and manages itself (Norton, 1992). In summary, the objectives of balanced scorecard are to (Kaplan, 1996):

1. clarify and gain consensus about vision and strategy
2. build a strategic management team
3. communicate the strategy throughout the organization
4. align department goals to the strategy
5. set strategic targets
6. perform periodic and systematic strategic reviews, and
7. obtain feedback to learn about and improve strategy.

It is difficult to ascertain the success of implementation of the balanced scorecard as most of the literature on its implementation is put out by those with a vested interest in its success as a commercial product (Norton, 1992; Gentia, 1999). However, the rationale behind the balanced scorecard appeals to managers. Reasons for its appeals are because its balanced theme and an implementation that allows organization's high level strategic objectives and measures to be translated into practical actions. The intent of balanced-scorecard is to choose measures that maintain a balanced between short-term and long-term objectives, between financial and non-financial, between lagging and leading indicators and, between internal and external performance perspectives. Ideally, a shared understanding of the organization's vision is created and the business strategy is communicated to the organization as a whole. This allows all employees to see how they contribute to organizational success.

The emphasis of the balanced scorecard is to capture real significance of strategy by including both quantitative and qualitative information on a mix of outcome (lag indicators) and performance drivers (lead indicators). The collection of measures thus created offers an alternative approach to the use of incentive compensation payments tied to traditional simplistic formulae of past performance. The purpose is to avoid the situation where so much pressure is placed on a single that managers developed dysfunctional methods to achieve excellence on this measure. It is also facilitates the identification of cause-and-effect relationships between items across the four subject areas (Martison, 1999).

Leadership

Top management is key in establishing strategic change (Wiersema, 1992). Organizational change is facilitated where the leadership style embraces both top-down direction and upward influence (Beer, 2000). The general manager advocates direction but learns from the feedback of those down the line.

Understanding the strategic direction helps to resolve differences of perspective. Lower level managers are better able to exercise independent judgment if they know where the business is going and where. If an unexpected event occurs, their only resources is to follow the rules or ask the boss. The boss might be as confused about the strategy. If the general manager is the only one who has the whole picture, all major decisions can be made at the top. Equally, if those charge with implementation cannot tell senior managers about problems, a company has no early warning systems.

Successful implementation needs more than a leader. Leadership should also comprise an effective top team, whole members through dialogue and collaboration, stays connected to the knowledge in lower level of the organization. Through constructive conflicts, the team arrives at consensus and creates and maintain the context needed to implement the strategy (Eisenhardt, 1999).

Managerial replacement can be effective for addressing barriers to strategy implementation. New managers are not implicated in the problem of the old regime. They often replace other managers and initiate a new direction. However without identification and discussion of issues, employees at the lower level will be fearful of open discussion where the general manager's approach is to replace staff than engage in discussion.

Cultural Readiness

A Culture is a set of basic tacit assumption about how the world is and ought to be that a group of people share and that determines their perceptions, thoughts, feelings and to some degree their overt behavior (Schein, 1992). Culture manifest itself at three levels i.e. the level of deep tacit assumption that are the essence of the culture, the level of espoused values that often reflect what a group wishes ideally to be and the way it wants to present itself publicly, and the day-to-day behavior that represent a complex compromise between espoused values, the deeper assumption and the immediate requirement situation (Schein, 1996)

There may be inconsistencies between behavior and espoused values. A company may promote 'teamwork' and individuals on the surface may appear to be part of a team but because of incentives and control systems continue to hold the belief that they can get ahead by individual effort and will act accordingly when rewards are given out.

Getting cross functional team to work well together is also difficult because members bring their functional cultures into the project and as a consequence have difficulty communicating with each other, reaching consensus and implementing decision effectively. Schein (1996) identifies three cultures within all organization, executive, engineer and operator, and argues that organizational learning failures may be caused by the lack of communication amongst the three cultures. Executives are supposed to worry about the financial health of their organization, and engineers are supposed to innovate toward the most creative solutions and operators operate. To create alignment amog the three cultures requires mutual understanding among them to evolve solutions that will be understood and implemented. Too often the operators assume that the executives and or engineers assume they need to control the operators more tightly and force them to follow policies or procedure manuals. In either case, effectiveness and efficiency will suffer because there is no common plan that everyone can understand and commit to.

Organizational Learning

Organizational need to pay attention of organizational learning in order to increase competitive advantage, innovation and effectiveness. Learning occurs due to the influence of various focus including strategy, technology and culture. Agyris (1978) define organizational learning as the detection and correction of error. Fiol & Lyles define learning as the process of improving actions through better knowledge and understanding. Both definitions are relevant to strategy development and implementation.

Argyris (1878) describe three types of learning:

1. Single loop learning occurs when error are detected and corrected, while organizations carry on with their present policies and goals.
2. Double loop learning occurs when in addition to detection and correction of errors, the organization is involved in questioning and modification of existing norms, procedures, policies, objectives.
3. Deutero-learning occurs when organizations learn how to carry out single-loop and double-loop learning.

To ensure that strategies are adapting to meet changing circumstances, organization need to integrate management control with strategic learning. Two feedback loop can help accomplish this. In the first, the balanced scorecard is the focus with emphasis on strategic performance. The second feedback loop tests whether the implemented strategy is working as planned and whether recent developments warrant any modifications.

Controlling the strategy is thought of as management control. The thermostat provides a metaphor for such control since it detect differences between actual and targeted temperatures and adjusts the heating or air conditioning unit to bring the outcome back to the desires state. The first feedback loop focused on the balanced scorecard, expand this thermostatic process by offering and opportunity to report and discuss all strategically relevant measures, along with performance improving initiatives. It is intensifies the focus on the strategy and identifies the management and organizational actions required to get performance back on track.

More fundamentally, managers must determine whether their strategies are valid and will deliver the intended performance breakthrough. Through the process of double loop learning (Agyris, 1978), they can examine the assumption underlying their strategies. The process should allow for testing and adapting the strategy. Two processes that do so are:

1. examining the impact of external discontinuities
2. considering emerging strategies

In today's business environment, change in competition, technology, regulation, and economic events can undermine the assumption used to create the balanced scorecard. Management needs to asses the impact of external changes on their strategies.

If the organization has communicated and made strategy everyone's Job , the scorecard provides the shared understanding that helps employees filter potentially significant information so that inputs on strategic opportunities and threat, come from the entire organization.

Similarly, with emergent strategies, employees are often the source of new strategies , through initiatives and experimentation or by identifying variations in existing strategies that yield new growth and opportunities.

The double loop strategic management systems enables management to perform critical functions as:

- monitoring performance against strategy.
- Working as team to interpret data
- Developing new strategic insights.
- Updating the measures on scorecards and
- Adapting strategies to changing environment

CONCLUSION

Although the application of balanced scorecard approach may seems easy, there are some important limitations to consider.

Kaplan and Norton (1996) identify four specific barriers to effective balanced scorecard implementation that have to be overcome:

1. vision and strategies that are not actionable
2. strategies that are not linked to departmental and teams goal
3. strategies that are not linked to resources allocation, and
4. feedback that is tactical and not strategic.

The root causes of these three barriers can be classified into three categories:

1. quality of direction (leadership)
2. quality of communication (cultural readiness).
3. quality of learning (organizational learning)

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